

ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS

Report to the California State Legislature

July 1, 1999, through June 30, 2000



KATHLEEN CONNELL
California State Controller

June 2000



KATHLEEN CONNELL

Controller of the State of California

June 30, 2000

To the Members of the California State Legislature:

I am pleased to announce that the *Annual Financial Report of K-12 Schools* for 2000 is complete. This year's report will be available via the Internet on the State Controller's Office homepage at <http://www.sco.ca.gov> on June 30, 2000. The report summarizes the financial and program compliance status of the state's school districts and county offices of education for fiscal year (FY) 1998-99. As such, the report will be useful in helping the Legislature and the State Superintendent of Public Instruction plan for California's future educational needs.

The financial health of most of the state's 994 school districts and 58 county offices of education continued to improve. For the eighth consecutive year, school districts overall spent less money than they received — an indication that districts are maintaining reserves and spending within their means. The number of school districts engaged in multi-year deficit spending decreased slightly — from 123 districts in FY 1997-98 to 104 districts in FY 1998-99. Only five districts had very low fund reserves — less than 1% of their general fund expenditures.

Despite the general improvement in fiscal well-being, however, key financial indicators reveal areas of concern involving some school districts and county offices of education. The number of districts and county offices of education filing negative or qualified interim certifications increased, from 15 in FY 1998-99 to 19 in FY 1999-2000, indicating possible difficulty in meeting financial obligations.

State and federal compliance findings noted in the independent auditors' reports of school districts decreased significantly from the prior year. There were 1,440 compliance findings in FY 1998-99, a 26% decrease from 1,939 reported in FY 1997-98. Approximately 50% of the compliance findings were related to deficiencies in attendance accounting. The school districts' annual independent audit reports also found that 16% of the 883 school districts participating in the class size reduction program failed to fully comply with program reporting requirements.

Hard copies of this publication may be obtained from my office. Please send your order to:

California State Controller's Office
Division of Audits
Attention: Victoria Uyeda
P.O. Box 942850
Sacramento, California 94250-5874

or by e-mail to: vuyeda@sco.ca.gov

If you have any questions about ordering the report, please contact Ms. Uyeda at (916) 445-7886.

Please direct any comments regarding the content of the report to Casandra Moore-Hudnall,
Chief, Financial Audits Bureau, at (916) 322-4846.

Sincerely,

KATHLEEN CONNELL
California State Controller

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Executive Summary

The State Controller has broad authority to oversee state and federal funding of California's public schools from kindergarten through the 12th grade (K-12). The State Controller's goal is to promote greater fiscal accountability by local school districts.

This oversight responsibility includes reviewing annual school district audit reports, maintaining a database with financial and statistical data on school district audit reports, reviewing and certifying the audit reports submitted by independent auditors, tracking financially troubled school districts identified by the interim reporting process, providing guidance and assistance to independent auditors through the State Controller's Office *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, and conducting financial and program audits at various school districts.

This year's report contains the following key findings:

- Fiscal year (FY) 1998-99 marked the eighth consecutive year that California's school districts as a whole did not spend more money than they received — an indication that districts are maintaining reserves and spending within their means.
- No school district requested an emergency loan from the State during FY 1999-2000. The three school districts with outstanding emergency loans are current on their repayment schedules.
- Five districts had very low fund reserves (1% or less of their general fund expenditures) in FY 1998-99, compared to three districts in the previous year.
- The number of districts engaged in multi-year deficit spending decreased slightly during FY 1998-99. Compared to 123 districts in the prior year, 104 districts in FY 1998-99 engaged in multi-year deficit spending — a 15.4% decrease. Although some school districts may have legitimate needs to engage in multi-year deficit spending (such as for building projects), this practice is often an indication that a district is facing financial difficulty.
- Long-term borrowing increased by \$60 million during FY 1998-99 to a total of \$3.11 billion, compared to \$3.05 billion in the prior year, a 2% increase.
- The number of districts filing negative or qualified certifications relating to their ability to meet their financial obligations for the current and subsequent two fiscal years increased — from 15 in 1998-99 to 19 in FY 1999-2000. Sixteen school districts filed qualified

interim financial reports and three school districts filed a negative interim financial report in the second reporting period of FY 1999-2000, indicating that they may not meet their current and future financial obligations.

- There was a significant decrease from the prior year in the number of state and federal compliance findings in FY 1998-99. Approximately 50% of the compliance findings related to deficiencies in average daily attendance accounting. Average daily attendance (ADA) is the primary factor in determining the amount of funding a school district receives from the State.
- The school districts' annual audit reports disclosed 137 audit findings for the 883 elementary school districts participating in the class size reduction program. There were also 99 audit findings for the 988 K-12 school districts and 58 county offices of education that received state instructional materials funds.

Most of the information used to prepare this report is compiled from annual audit reports prepared for individual school districts by independent certified public accountants for FY 1998-99. Additional data came from interim financial report certifications submitted by school districts during FY 1999-2000 and from audits conducted by the State Controller's Office.

Introduction

The State Controller's Office oversight role in the K-12 fiscal process is administered by its Division of Audits. Oversight activities focus primarily on three areas: financial indicators, program compliance, and quality control.

The State Controller's Office also has responsibilities relating to the financial oversight of school districts (including county superintendents of schools), in accordance with *Education Code* Section 14500. These responsibilities include:

- Publishing an annual audit guide,¹ which prescribes financial statements and other information that should be included in each school district's audit report. This publication provides guidance to the independent auditors conducting school district audits;
- Reviewing each school district's audit report submitted to the State and performing the associated follow-up actions, including compliance audits;²
- Tracking notifications from the school districts that identify substantial fiscal problems at interim reporting periods;
- Conducting selected school districts' annual financial and compliance audits as a condition of the districts' receiving emergency state apportionments;
- Ensuring that satisfactory arrangements for an annual audit have been made for each school district; and
- Compiling pertinent data and reporting annually to the California State Legislature and the California Department of Education.

¹ *Standards and Procedures for Audits of California K-12 Local Educational Agencies (K-12 Audit Guide)* is published by the State Controller's Office. The *Education Code* states that the Controller, in consultation with the California Department of Education, the California Department of Finance, a representative of the county offices of education, and representatives of the California Society of Certified Public Accountants, shall prescribe the statements and other information to be included in the audit reports filed with the State and shall develop an audit guide to carry out the purposes of this chapter. Prior to the issuance of the audit guide, the Controller shall submit a copy of the audit guide to the Department of Finance for review to ensure that all compliance requirements are properly included.

² Compliance audits are conducted to determine whether categorical state and federal program funds are expended in accordance with the applicable program laws and regulations. These program funds (restricted revenues) comprise, on average, approximately 25% of a school district's total funds.

Financial Indicators

Overview

Assembly Bill 1200, enacted in 1991 (Chapter 1213), put school district finances under the control of county offices of education and the California Department of Education. The law protects the public's interest in education by giving county offices of education specific responsibility for fiscal oversight of districts within their jurisdictions.

Key financial indicators representing the financial health of school districts are presented in this chapter. Most of the indicators use data from annual audit reports prepared by independent certified public accountants (CPAs) for FY 1998-99. State law allows school districts approximately six months after the end of a fiscal year to submit an independent audit report to the State Controller's Office and the California Department of Education. Additional data comes from interim financial report certifications submitted by school districts during FY 1999-2000 and from audits conducted by the State Controller's Office. Each section of the report specifies the fiscal year for which the data was obtained.

Interim Reporting

School districts in California are required to file interim reports certifying their financial health to the governing board of the district and county office of education. These interim reports must be completed twice a year by every school district (to cover the periods of July 1 through October 31 and November 1 through January 31), and must be reviewed by the appropriate county superintendent of schools. The interim reports contain financial and program information on standardized forms as prescribed by the State Superintendent of Public Instruction.

One of the following three certifications must be designated by the school district or county office of education when certifying the district's fiscal stability on the interim report.

Positive: A school district or county office of education that **will** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Qualified: A school district or county office of education that **may not** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Negative: A school district or county office of education that **will not be able to** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

School districts that file qualified or negative interim reports work with their county superintendent to implement corrective action. Copies of the qualified or negative certifications are forwarded to the State Controller's Office and the State Superintendent of Public Instruction.

***More districts
filed qualified
or negative
certifications***

During FY 1999-2000, 11 of the 988 school districts and 58 county offices of education in the State filed a qualified certification, and two districts filed a negative certification for the first period interim report. Of the 13 districts, 7 filed a second period qualified or negative interim report; therefore, 6 districts were able to take corrective action. However, an additional 12 districts filed qualified second period interim reports, for a total of 19 districts filing qualified or negative certification for the second period interim report (see Table 1). Thus, 25 districts reported qualified or negative classifications in at least one of the two periods (see Appendix A). Four school districts remained on the list from the prior year. School districts filing qualified or negative interim reports for two or more years are monitored closely by the State Controller's Office through continuous contact with the California Department of Education.

The most common causes of fiscal problems cited in qualified or negative certifications were the following:

- Inadequate reserves;
- Deficit spending;
- Declining enrollment;
- Underestimated expenditures; and
- Overestimated revenues;

Table 1

SECOND PERIOD INTERIM REPORTING HISTORY				
	1996-97	1997-98	1998-99	1999-2000 ¹
Positive	1,039	1,049	1,037	1,027
Qualified	18	7	14	16
Negative	0	1	1	3
Totals	1,057	1,057	1,052	1,046

¹ Additional information regarding districts that filed qualified or negative interim reports during FY 1999-2000 is provided in Appendices A and B.

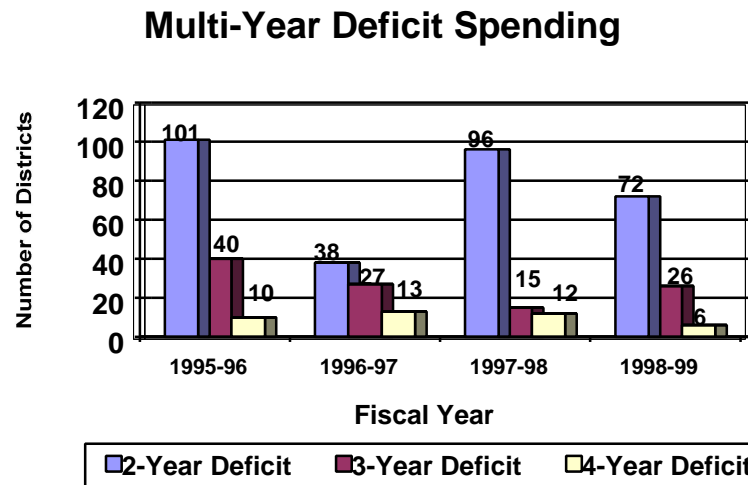
**Deficit
Spending**

During FY 1998-99, single-year deficit spending decreased slightly, from 244 districts to 210 districts in the prior fiscal year. Deficit spending patterns are closely monitored by the county offices of education and the California Department of Education to determine whether the districts are facing serious financial problems.

During FY 1998-99, the number of districts relying on multi-year deficit spending decreased slightly (see Table 2). The biggest decrease was for two-year deficit spending (24 districts, or 25%). The three-year deficit spending increased to 26 from 15 in the prior year.

School district deficit spending decreased slightly

Table 2



Emergency Apportionments

When the governing board of a school district determines that the district's revenues are not sufficient to meet its current year obligations, it may request an emergency apportionment through the State Superintendent of Public Instruction. As a condition of acceptance of the loan, the Superintendent will appoint a trustee to monitor and review the operation of the district. An insolvent district also may request and receive an emergency apportionment. It, too, will be assigned a trustee; the trustee will help the district to develop a five-year recovery plan.

Emergency loan repayments current

During the past 18 years, the state has granted more than \$70 million in emergency loans to school districts. Currently, three districts have outstanding loans (see Table 3). All three districts — West Contra Costa, Coachella Valley, and Compton Unified school districts — are currently meeting their repayment schedules. Collectively, they account for 78% of the emergency loans (\$55.7 million) issued by the State within the last ten years.

Table 3

DISTRICTS WITH OUTSTANDING LOANS				
Fiscal Year	School District	Amount of Loan	Outstanding Balance	Final Repayment Date
1990-91	West Contra Costa Unified	\$28.5 million	\$20.7 million	February 1, 2018
1992-93	Coachella Valley Unified	\$7.3 million	\$1.9 million	December 31, 2001
1993-94	Compton Unified	\$19.9 million	\$5.1 million	June 30, 2001

General Fund Revenues and Expenditures

FY 1998-99 marked the eighth consecutive year in which total school district general fund revenues exceeded expenditures (see Table 4). The number of districts able to accomplish this in FY 1991-92 was 526 (49%); in FY 1992-93, 757 (71%); in FY 1993-94, 636 (60%); in FY 1994-95, 504 (48%); in FY 1995-96, 803 (76%); in FY 1996-97, 724 (68%); in FY 1997-98, 685 (65%); and in FY 1998-99, 732 (70%).

As school districts continue to spend less than they receive, they are able to increase their total fund balance, or surplus. The cumulative surplus for California school districts totaled \$4.07 billion at the end of FY 1998-99. That amount consisted of an increase of \$1.04 billion in total revenues over expenditures at the end of FY 1998-99. The surplus as of June 30, 1999, increased a net \$440 million over June 30, 1998, after adjustments for other sources and uses, such as expenditure reductions, planned reductions, and unrealized revenues. As part of the total fund balance, the districts are to maintain reserves as a defense against economic uncertainties. The California Department of Education issues guidelines regarding the amount of reserve each district should maintain, based on its total average daily attendance.

Table 4

SCHOOL DISTRICT GENERAL FUND REVENUES AND EXPENDITURES (IN BILLIONS)								
	Fiscal Years							
	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Revenues	\$22.758	\$23.507	\$24.531	\$24.955	\$26.746	\$29.778	\$32.893	\$35.715
Expenditures	22.601	22.917	23.865	24.729	26.026	29.040	32.017	34.675
Surplus	\$.157	\$.590	\$.666	\$.226	\$.720	\$.738	\$.876	\$ 1.040

General Fund Balances

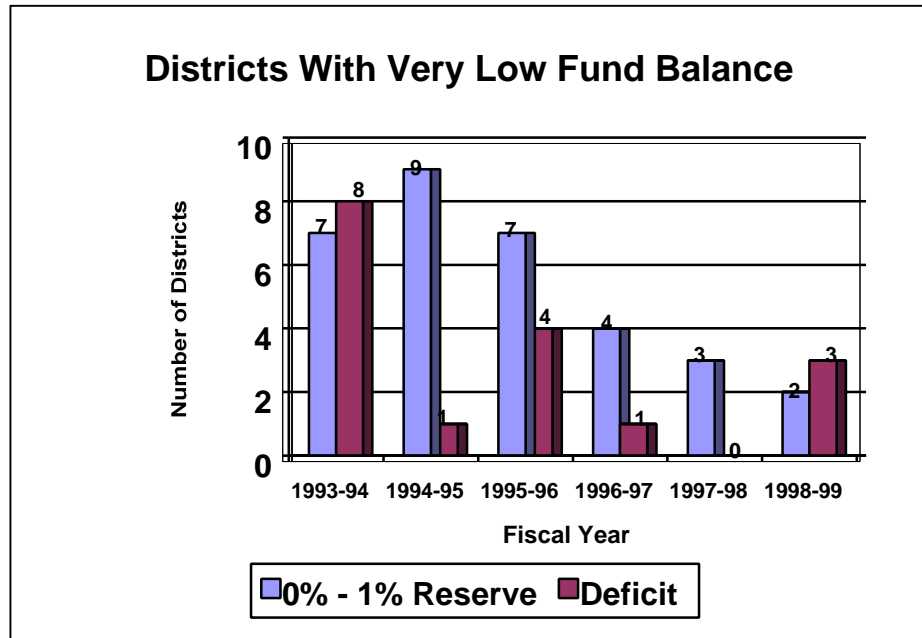
School districts report to county offices of education on projected general fund balances and reserve levels for the current period and two subsequent years in their interim reports. The primary purpose of this reporting is to identify potential deficit spending early in the process so the trend can be reversed.

Number of districts with very low reserves increased slightly

The number of school districts with low fund balance reserves or deficit balances increased slightly. At the end of FY 1998-99, five of 988 school districts and 58 county offices of education had low fund balance reserves (1% or less of general fund expenditures) (see Table 5).

There were only two districts with very low fund balance reserves and three districts with a negative fund balance. This is a continuing improvement over the last six years in the number of districts with very low reserves, from the high of 15 in FY 1993-94 to 5 in FY 1998-99.

Table 5



Long-Term Borrowing

School districts' long-term borrowing increased slightly

Generally, long-term debt is issued by districts to fund the purchase, construction, or lease of buildings and equipment; to refinance existing debt; or to buy land for future use. In the past, it was not uncommon for financially troubled districts to issue long-term debt in order to finance current operations.

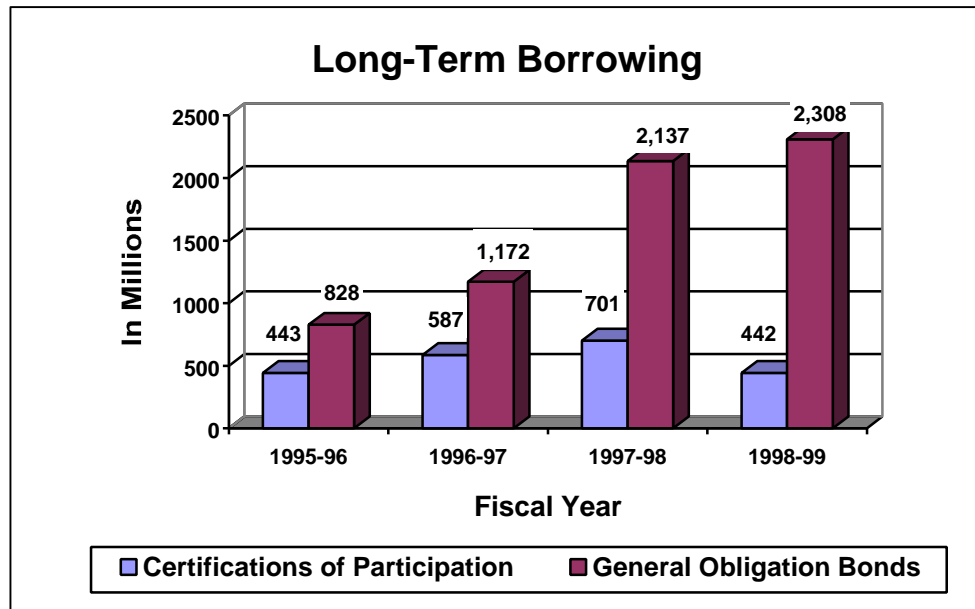
During FY 1998-99, school districts issued \$3.11 billion in long-term debt, an increase of \$60 million over the prior year (2%). Long-term debt financing included:

- **Certificates of Participation (\$442 million, or 14%)** — a financing technique that provides long-term financing through leasing of school facilities, such as buildings, with an option to purchase or a conditional sales agreement.
- **General Obligation Bonds (\$2.308 billion, or 74%)** — bonds secured by the full faith and credit of the district. These long-term obligations generally are issued at more favorable rates than other types of debt because of their preferred status — that is, they are secured by the taxing authority of the district.

- **Limited Tax Obligation Bonds (\$365 million, or 12%)** — a financing technique that provides long-term financing of capital projects. The bonds are repaid from incremental taxes on property in a redevelopment area.

School districts issued \$2.75 billion in certificates of participation and general obligation bonds during FY 1998-99, a decrease of \$88 million (3%) from the prior year's \$2.838 billion (see Table 6).

Table 6



Financing through certificates of participation decreased by \$259 million and financing through general obligation bonds increased by \$171 million over the prior year. The certificates of participation were issued by 59 school districts during FY 1998-99.

There is a continuing trend for districts to make greater use of general obligation bonds than other types of long-term debt. Certificates of participation accounted for 14% of long-term borrowing in FY 1998-99 — a 9% decrease from 23% in the previous year. In comparison, general obligation bonds accounted for 74% of long-term borrowing in FY 1998-99 — an increase of 4% over FY 1997-98.

Lottery Revenues

The allocation of lottery revenues to K-12 school districts is based on a percentage of total lottery sales for the year. Under state law, a minimum of 34% of lottery sales must be distributed to school districts and community colleges. The division of this 34% between K-12 school districts and junior colleges fluctuates annually.

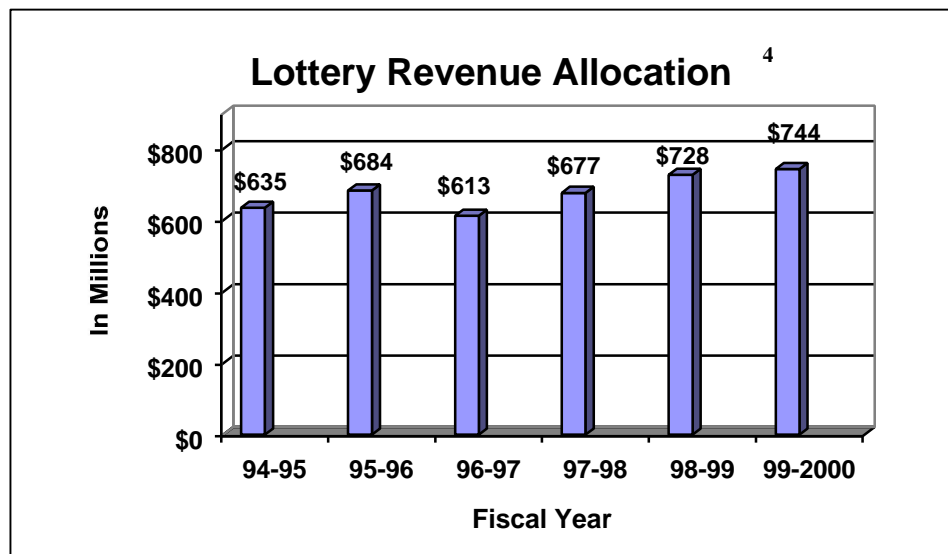
Lottery revenues increased slightly

The amount is distributed to each district based on its K-12 average daily attendance. The data regarding sales and allocations are maintained by the State Controller's Office and the California State Lottery.

Lottery revenue allocated to school districts increased due to higher sales. This was the third year of increase after a significant decrease in FY 1996-97. Revenue for FY 1999-2000 is projected to increase by 2.2% over 1998-99 to \$744 million³ — about \$120 per K-12 average daily attendance (see Table 7).

³ The lottery revenue information is obtained from the California Department of Education, based on State Lottery projections.

Table 7



⁴ Amount for FY 1999-2000 is estimated; all other amounts are actual.

Program Compliance

Overview

The State Controller's Office also reports on program compliance issues as part of its review of annual audit reports, overall certification process, and associated follow-up actions. In addition, the State Controller's Office conducts compliance audits.

Compliance Findings

School district auditors determine whether the districts and joint powers entities (JPEs) have complied with state and federal laws and regulations that may have a material effect on the financial position and operations of the organization or program(s) under audit. The JPEs are formed to provide a joint service to a group of districts and are governed by a board consisting of a representative from each member district. When a school district or JPE is not in compliance with applicable laws and regulations, the findings are communicated in the audit report.

The number of compliance findings contained in FY 1998-99 school district financial reports submitted by CPAs decreased from the prior year. There were 1,440 compliance findings in FY 1998-99, a 26% decrease from 1,939 reported in FY 1997-98 (see Appendix D). The number of attendance accounting findings decreased by 52 (from 777 to 725, or 6.7%) from the prior year.

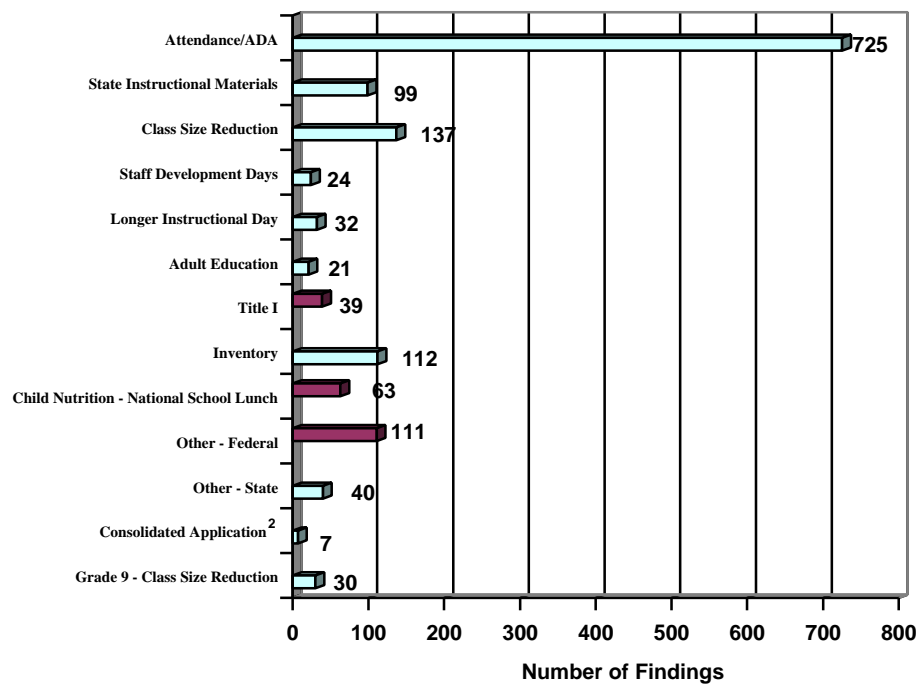
Some of the problems identified in the compliance findings may have a fiscal impact on district operations by causing a loss of state and federal funding. Of the 1,440 audit findings, 1,227 (85.2%) pertained to state programs and requirements, and 213 (14.8%) pertained to federal programs and requirements (see Table 8). Attendance-related findings accounted for 50% of compliance findings. The attendance findings were related to errors in:

- Overstating ADA;
- Preparing independent study contracts;
- Obtaining required approvals for attendance accounting systems;
- Having attendance registers/scantrons signed by the teacher;
- Reconciling attendance reports to supporting documentation;
- Understating ADA; and
- Retaining documentation/records.

The FY 1998-99 school district audit reports also found that 16% of the 883 elementary school districts participating in the class size reduction program did not fully comply with program reporting requirements. The audits identified 137 findings relating to the class size reduction program. Most of the findings pertained to inaccuracies in reporting class size totals and daily enrollments, while others stemmed from the failure of districts to document teacher training or to accurately complete class size reduction facility applications. The audits also disclosed 99 findings pertaining to the state instructional materials fund. Over 55.6% (55) pertained to public hearing notice requirements and expending more than 30% allowance on non-adopted materials.

Table 8

Compliance Findings Summary¹



¹ See Appendix D

² A consolidated application is an application filed by a district with CDE to obtain funding for certain state and federal categorical programs.

□ State ■ Federal

Reporting of Findings

Annual audit reports by CPAs are the primary source of information regarding a school district's financial stability and its compliance with state and federal program requirements. Noncompliance with program laws and regulations is not always included in the audit reports. Some of these problems were either reported to the school district in the independent auditor's management letter or were undetected by the independent auditor.

Build-Upon Audits

The Single Audit Act of 1984, as amended in 1996, requires agencies that perform compliance audits to build upon the school district audits performed by independent CPA firms to avoid duplication. As a fiscal oversight agency, the State Controller's Office pursues unreported issues through supplemental audits, commonly called build-upon audits, and through other surveys of school districts' business and accounting practices. As a general rule, State Controller's Office auditors review the working papers of single audits performed by independent CPAs prior to conducting a build-upon compliance audit or survey.

Build-upon audits disclosed additional deficiencies

In FY 1999-2000, the State Controller's Office performed build-upon audits and fiscal surveys mainly in the area of attendance accounting, which includes Juvenile Court and Community Schools, Independent Study, Regional Occupational and Apprenticeship Programs, and Charter Schools. Based upon the results of the State Controller's build-upon audits, additional program deficiencies were discovered that were not reported by the districts' independent auditors.

Principal audit findings

The State Controller's Office audits of average daily attendance (ADA) for the programs listed above disclosed the principal audit findings listed below. The California Department of Education is responsible for following up on the findings to ensure that they are properly resolved.

Juvenile Court and Community Schools

- The county office of education did not obtain the proper approval for its Independent Study Program attendance accounting system.
- The county office of education did not comply with the minimum instructional minutes requirement (240 minutes per day).
- The county office of education's attendance accounting reporting system lacked basic controls.
- The county office of education did not obtain proper approval for its new computerized attendance accounting system.
- The county office of education's attendance accounting reporting system lacked basic controls, resulting in mathematical errors.
- Two of the sites tested were missing required information on the supporting source documents.

- Two of the sites tested were found to be overclaiming ADA. There were instances of double and sometime triple counting of students.
- The county office of education did not comply with a requirement that students be engaged in an educational activity in order to claim ADA for apportionment purposes.

Independent Study Program

- The school district inappropriately claimed Independent Study ADA for students not within the boundaries of the school district.
- The school district lacked documentation to support ADA claimed for apportionment purposes.

Residency Verification

- The school district inappropriately claimed ADA for students that are not residents of the State of California.

Regional Occupational and Apprenticeship Programs

- The county office of education claimed the same ADA for two different programs. In addition, attendance data was not reviewed or reconciled on a consistent basis.
- The county office of education inappropriately claimed ADA for courses taught outside of county boundaries without obtaining approval from Superintendent of Public Instruction. The county office of education also received funding from another agency for the course already claimed for apportionment purposes from the California Department of Education.

Charter School

- The charter school inappropriately claimed ADA for private schools converted to a charter school.
- Some of the school sites that were private school sites prior to becoming a charter school charged tuition.
- Some of the charter school sites taught sectarian studies.
- The incorrect number of school days was used by a charter school to compute ADA, resulting in an overstatement of ADA claimed for apportionment purposes.

Quality Control

Overview

The State Controller, under *Education Code* Section 14504, reviews and certifies the annual independent audit reports submitted by each school district, county office of education, and joint powers entity (JPE) for compliance with audit guidelines set out in the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies (K-12 Audit Guide)*.

Audit Report Certifications

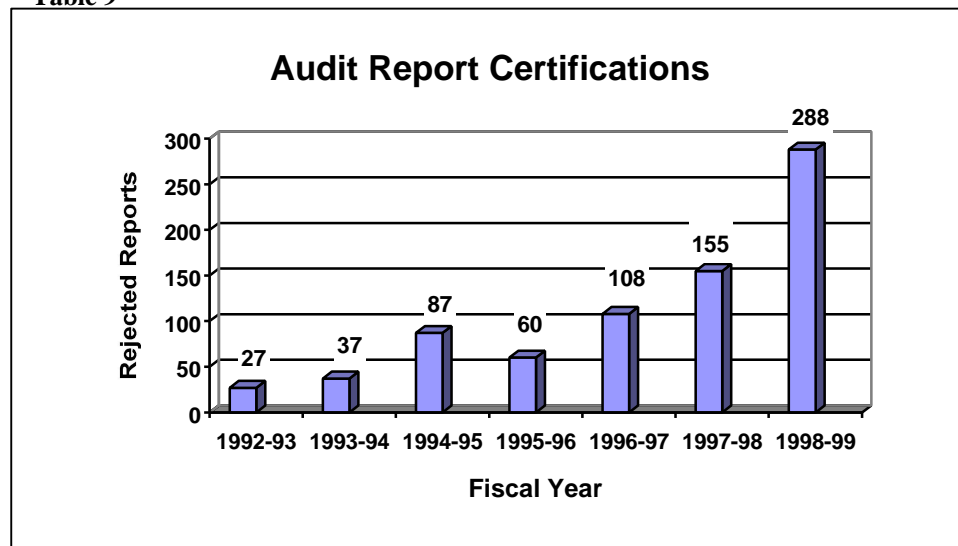
The State Controller's Office determines whether audit reports conform to reporting provisions of the *K-12 Audit Guide* and provides notification to each school district, county office of education, independent auditor, and the State Superintendent of Public Instruction regarding the acceptance or rejection of each report.

For FY 1998-99, 74% of the audit reports were accepted; the remaining 26% were rejected upon initial review. The rejected audit reports were subsequently accepted after the independent auditors made requested corrections. Rejection of the auditor's report is accompanied by a penalty whereby the independent auditor does not receive the 10% service fee retained by the district until the audit report has been corrected and certified by the State Controller's Office. In addition, if an independent auditor has had a report rejected (and not subsequently corrected) for the same district for two consecutive years, the auditor may be referred to the State Board of Accountancy for professional review.

The number of rejected reports increased by 133 (from 155 to 288) over the prior year, an 86% increase (see Table 9). The rejections resulted mainly from errors in meeting state compliance requirements, in coding and quantifying the audit findings, and in disclosing State Teachers' Retirement System pension notes. Other rejections were due to the state instructional materials fund not being audited.

**Significant
increase in
rejected audit
reports**

Table 9

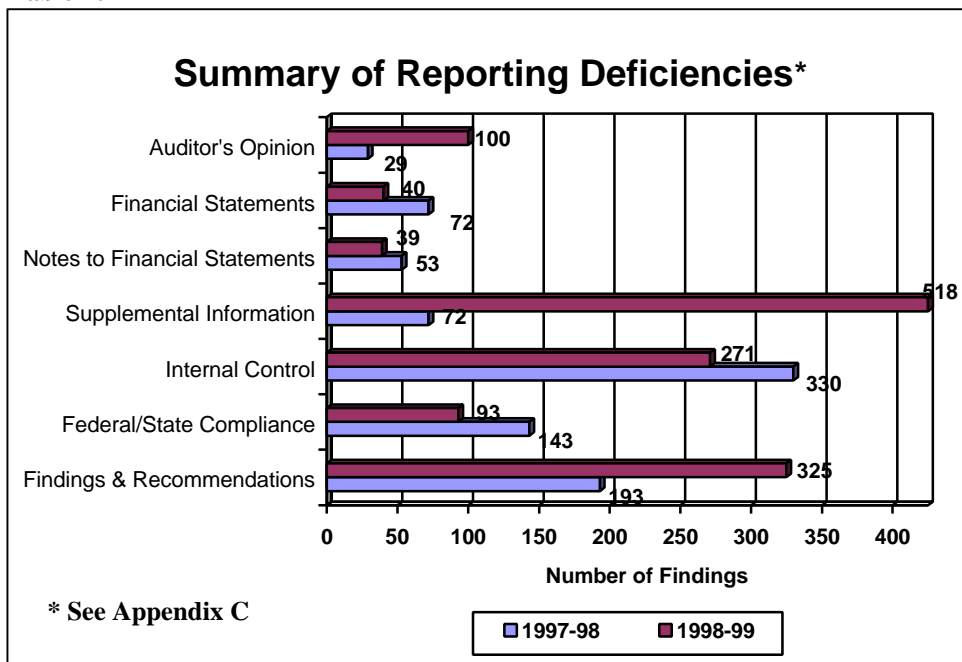


Reporting Deficiencies

Overall reporting deficiencies increased significantly

Upon initial review, the State Controller's Office certified 806 (77%) of the 1,046 audit reports submitted by independent CPAs for FY 1998-99. The certification of an audit report means that the State Controller's Office agrees that it fairly represents the financial status of the district and the audit work performed by the CPA.

Table 10



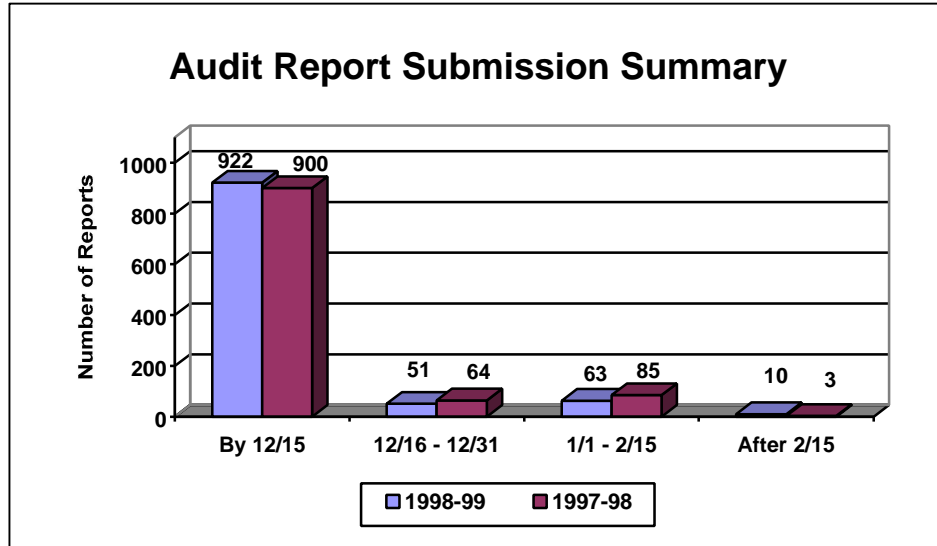
The number of reporting deficiencies in a variety of report areas increased significantly. For FY 1998-99, there were 1,386 reporting deficiencies, an increase of 494 over the prior year (see Table 10).

Timely Submissions

Audit reports for the preceding fiscal year must be filed with the State Controller's Office, the California Department of Education, and the county superintendent of schools by December 15. Filing deadline extensions may be granted, but only under extraordinary circumstances.

Slight increase in number of annual reports submitted before the deadline

Table 11



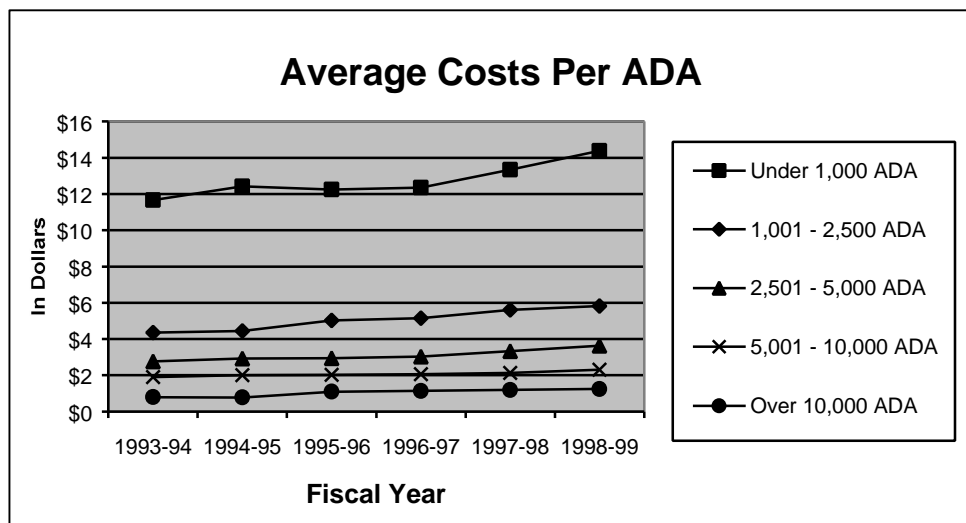
There was a slight increase in the number of annual audit reports submitted before the deadline (see Table 11). During FY 1998-99, 22 more reports were received by the December 15 deadline. The majority of annual reports — 922 of 1,046, or 88% — were submitted by that date.

Average Audit Cost Per ADA

The State Controller's Office maintains a database of information pertaining to audit contracts between local school districts and independent auditors. From that database, the total audit costs and cost per audit were determined, on a per unit of ADA basis, for school districts' annual audits. Audit costs for the FY 1998-99 audits totaled \$13.05 million, an increase of \$700,000, or 5.7%, over total audit costs of \$12.35 million for FY 1997-98.

Average audit costs increased slightly

Table 12



The average audit cost per ADA increased slightly over the prior year. The biggest increase of 9.04% (\$.30) was for districts with 2,501 to 5,000 ADA.

Appendix A — Audit Report and Interim Report

Disclosures of Impending Financial Problems

County School District	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	Average Daily Attendance	1999-2000 Interim Report ¹		1998-99 Filed Qualified or Negative Interim Report
				First	Second	
Alameda County:						
Emery	No	No	913	P	Q	P
Oakland	No	No	55,839	Q	Q	P
San Leandro	No	No	8,318	P	Q	P
Contra Costa County:						
Mt. Diablo	No	No	36,211	Q	P	P
John Swett	No	No	1,989	N	N	Q
Orinda Union	Yes	Yes	2,366	Q	P	P
Inyo County:						
Big Pine	No	No	247	Q	Q	P
Owens Valley	No	No	124	P	Q	P
Kern County:						
Kernville	No	No	1,045	P	Q	P
Los Angeles County:						
Bassett	No	No	7,303	Q	P	P
Centinela Valley	No	No	7,358	Q	P	Q
Lassen County:						
Fort Sage	No	No	379	P	Q	P
Marin County:						
Lagunitas	No	No	401	Q	P	Q
Monterey County:						
Monterey Peninsula	No	Yes ²	13,639	Q	N ³	P
Napa County:						
Howell Mountain	Yes	Yes ²	67	N	N	N
San Benito County:						
Southside	No	No	153	P	Q	P
San Francisco County:						
Office of Education San Francisco	Yes	Yes	58,996	Q	Q	P
San Joaquin County:						
Lammersville	No	No	293	P	Q	P
Santa Cruz County:						
Santa Cruz City	No	No	8,943	Q	Q	P
Shasta County:						
Mountain Union	No	Yes	139	P	Q	P
Sierra County:						
Sierra-Plumas Joint	No	No	2,956	Q	P	P
Siskiyou County:						
Montague	No	No	235	P	Q	P
Sonoma County:						
Cloverdale	No	No	1,506	P	Q	P
West Sonoma County	No	No	2,503	P	Q ⁴	P
Sutter County:						
Live Oak	No	Yes	1,774	P	Q ⁴	P

¹ P = Positive Q = Qualified N = Negative

² Going concern finding.

³ County office of education changed certification from qualified to negative.

⁴ County office of education changed certification from positive to qualified.

Appendix B — School Districts Filing Qualified or Negative Interim Reports

County/ School District	1 st /2 nd Certifi- cation	Deficit Spending	Inadequate Reserves	Revenues Over- Estimated	Expendi- tures Under- Estimated	Unrecorded Liability	Analysis of Key Indicators For Financial Difficulties											Mandated Cost Claim Reduction	Recovery Plan
							Declining Enrollment	Enrollment Growth Projection	Long-Term Debt/Other Obligations	Payroll Problems	Staffing Reduction	Audit Adjustment Findings	Special Education Encroachment	Fiscal Advisor	Budget Overruns				
Alameda:																			
Emery	P/Q	●	●	●				●		●						●	●		
Oakland	Q/Q		●			●				●			●						
San Leandro	P/Q	●	●		●														
Contra Costa:																			
Mt. Diablo	Q/P	●											●						
John Swett	N/N	●	●														●		
Orinda Union	Q/P	●		●															
Inyo:																			
Big Pine	Q/Q		●				●			●		●							
Owens Valley	P/Q	●	●				●			●									
Lassen:																			
Fort Sage	P/Q	●	●					●							●				
Kern:																			
Kernville	P/Q		●					●		●						●			
Los Angeles:																			
Bassett	Q/P	●	●														●		
Centinela	Q/P	●	●					●								●			
Marin:																			
Lagunitas	Q/P	●	●					●											
Monterey:																			
Monterey Peninsula	Q/N	●	●												●	●	●		
Napa:																			
Howell Mountain	N/N	●	●					●											
San Benito:																			
Southside	P/Q		●	●				●											
San Francisco:																			
San Francisco	Q/Q		●		●			●		●									
San Joaquin:																			
Lammersville	P/Q												●						
Santa Cruz:																			
Santa Cruz City	Q/Q	●	●					●											
Shasta:																			
Mountain Union	P/Q	●	●		●														
Sierra:																			
Sierra-Plumas	Q/P	●			●														
Siskiyou:																			
Montague	P/Q	●	●	●															
Sonoma:																			
Cloverdale	P/Q	●	●	●				●											
West Sonoma	P/Q	●	●					●		●									
Sutter:																			
Live Oak	P/Q	●	●	●				●				●	●						

P = Positive Q = Qualified N = Negative

Appendix C — Summary of Audit Report Problems

Description	Number of Findings 1997-98	Number of Findings 1998-99
<u>Auditor's Opinion</u>		
The auditor's qualified opinion due to departure from generally accepted accounting principles (GAAP) did not provide substantive reason for departure and/or did not disclose possible effects on financial statements.	8	72
The auditor's qualified opinion due to scope limitation did not include an explanation paragraph and/or did not disclose possible effects on financial statements.	6	12
The auditor's opinion did not state that the financial statements conform with GAAP.	1	1
The auditor's report did not state that the audit was conducted in accordance with generally accepted auditing standards (GAAS) and government auditing standards.	10	6
Reference to a separate report on compliance and on internal control over financial reporting was not included.	4	5
Auditor's reports did not include a manual or printed signature of the Auditor's Firm and the date of the report.	0	4
	29	100
<u>Financial Statements</u>		
The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — All Governmental Fund Types—was omitted or contained errors.	22	0
The Combined Operating Statement was not properly presented	0	6
The Combined Balance Sheet — All Fund Types and Account Group — was omitted or contained errors.	21	0
The Combined Balance Sheet was not properly presented.	0	9
The fund balance was not properly reserved for material nonexpendable assets.	9	8
The combined budget and actual statement was not properly presented.	13	4
The financial statements were not properly presented for the proprietary and nonexpendable trust funds.	1	1
Long-term debt was improperly reported and presented.	3	7
Interfund receivables did not equal interfund payables.	1	5
All activities, organizations, or functions of government related to the joint powers entity were not identified.	1	0
The notes did not adequately disclose the criteria used in determining the scope of the joint powers entity.	1	0
	72	40

Description	Number of Findings 1997-98	Number of Findings 1998-99
<u>Notes to the Financial Statements</u>		
All activities, organizations, or functions of government related to the entity were not identified.	0	1
The notes did not adequately disclose all material items necessary for a fair presentation of the financial statements (long-term debt, issuance of certificates of participation, pension obligations, prior period adjustments, etc.).	10	1
The notes did not adequately describe the criteria used in determining the scope of the audit.	0	1
The notes did not adequately disclose pension obligations.	16	8
The notes did not include full disclosure with respect to long-term debt.	21	19
The nature and purpose of reported reserves was not sufficiently clear.	5	9
The notes did not adequately disclose prior period restatements or adjustments.	1	0
	<u>53</u>	<u>39</u>
<u>Supplemental Information Section</u>		
The Schedule of Expenditures of Federal Awards did not include the required federal catalog numbers; and total expenditures for each federal program were not listed; or the schedule did not include all the required programs. (For FY 1998-99, the SCO reviewed additional attributes identifying the following:	30	457
<ul style="list-style-type: none"> • Individual federal programs by federal agency and, for a cluster of programs, individual programs within the cluster. • For federal awards received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity). 		
This accounts for the significant increase in the number of deficiencies.		
The notes did not disclose the district's participation in the Early Retirement Incentive program.	16	26
The auditor's report did not include an opinion on supplementary information.	7	4
The reconciliation of annual financial and budget report with audited financial statements was not included.	9	4
Auditor's report did not include required Year 2000 disclosure.	*	23
The auditor's report did not identify the supplementary information, including the Schedule of Expenditures of Federal Awards.	9	3
The Schedule of Financial Trends and Analysis was omitted or contained deficiencies.	0	1
The Schedule of Expenditures of Federal Awards was not included.	1	0
	<u>72</u>	<u>518</u>

* Required Year 2000 disclosure not applicable in FY 1997-98.

Description	Number of Findings 1997-98	Number of Findings 1998-99
<u>Internal Control Section</u>		
The Report on Compliance and on Internal Control Over Financial Reporting did not reference the financial statements audited.	187	139
The Report on Compliance and on Internal Control Over Financial Reporting was deficient.	139	126
The Report on Compliance and on Internal Control Over Financial Reporting was omitted.	4	0
Auditor's Report on Compliance and Internal Control in accordance with Government Auditing Standards was not included.	0	2
The Report on Compliance and on Internal Control Over Financial Reporting did not include a statement regarding test results.	0	4
	330	271
<u>Federal and State Compliance Section</u>		
The auditor's report on state compliance was deficient.	110	75
The Report on Compliance With Requirements Applicable to Each Major Program and Internal Control was deficient.	27	17
The Report on Compliance With Requirements Applicable to Each Major Program and Internal Control was not included.	6	1
	143	93
<u>Findings and Recommendations Section</u>		
There was no report on the auditee's corrective action plan to eliminate noncompliance included in the report.	22	25
The audit findings were not coded with the correct five-digit number.	10	25
Noncompliance was reported, but sufficient data was not presented.	24	55
Schedule of Instructional Time indicates noncompliance with the requirements, but the finding was not included in the report.	14	7
Financial impact resulting from noncompliance was not quantified.	65	191
Available reserves are below the minimum required, and management's plans and/or going concern note was not included.	19	19
Summary of auditor's results was not included.	20	1
Major federal programs were not identified.	17	1
Questioned or unsupported costs material to the financial statements were not shown in either the financial statements or notes, nor was the opinion modified.	1	0
Summary schedule of prior audit findings was not included	1	1
	193	325
Total number of findings	892	1,386

Appendix D — Summary of Audit Report Compliance Findings

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE		
Adult Education	Attendance accounting deficiencies	18
	Lack of documentation/records	2
	Expenditures overstated	1
Child Development	Financial report inaccurate	2
	Reported expenditures inaccurate	1
	Financial report/claim not filed/not filed in a timely manner	1
Economic Impact Aid	Other findings	1
	Reported expenditures inaccurate	1
Longer Instructional Day	Instructional time requirements not met	20
	Other findings	12
Early Retirement Incentive	Other findings	1
School Improvement Program (SIP)	Reported expenditures inaccurate	2
Consolidated Application	School site plan not prepared	2
	Staff development days not approved in the school site plan	3
	Financial report inaccurate	1
	Other findings	1
State Instructional Materials Fund	Expenditures not allowable	8
	Public hearing on instructional materials held after June 30	8
	Ten-day notice of public hearing not posted at three public locations in district	36
	Interest earned on allowance not allocated to the program	2
	More than 30% of allowance and interest expended on non-adopted materials	19
	Other findings	26
Attendance Requirements	Excused absences — problems with verification procedures/documentation	14
	Excused absences improperly recorded	12
	Independent Study contract was not prepared/was deficient	114
	Attendance accounting system not approved by CDE	71
	Attendance registers/scantrons not signed by teacher	69
	Attendance report does not reconcile to supporting documentation	48
	Attendance report inaccurate/incomplete	42
	Lack of documentation/records	23
	ADA overstated by 0-5 ADA	72
	ADA overstated by 5-10 ADA	20
	ADA overstated by 10-20 ADA	11
	ADA overstated by over 20 ADA	15
	Kindergarten retention forms not maintained and/or not properly approved	37

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
Attendance Requirements (continued)	Incorrect reporting of attendance for staff development days	18
	Incorrect application of attendance accounting for continuation education	23
	Incorrect application of positive/negative attendance accounting	1
	ADA understated by 0-5 ADA	33
	ADA understated by 5-10 ADA	8
	ADA understated by 11-20 ADA	4
	ADA understated by over 20 ADA	7
	Regional Occupational Center/Program attendance deficiency	7
	Student not eligible for admittance to kindergarten	15
	Minimum day requirements not met	1
	Enrollment not recorded to monthly attendance reports	50
	Other findings	10
Inventory of Equipment	Inventory of equipment not maintained	112
Gann Limit Calculation	Appropriation calculation deficiency	1
	Other findings	1
Class Size Reduction	Number of classes and pupils reported on Form J-7 CSR understated	36
	Number of classes and pupils reported on Form J-7 CSR overstated	74
	Lack of documentation/records	2
	Teacher training not completed/not documented	12
	Other findings	13
Grade 9 Class Size Reduction	Lack of documentation/records	1
	Number of classes and pupils reported on Form J-7 CSR understated	3
	Number of classes and pupils reported on Form J-7 CSR overstated	19
	Other findings	7
County Community Schools	Type C pupils: Lack of documentation/records	2
	Type C pupils: Pupils incorrectly classified	2
Community Day Schools	Minimum day requirements not met	2
	Attendance report inaccurate	5
State Categorical Programs	Multi-funded positions not supported by time distribution records	1
Deferred Maintenance	Expenditures not allowable	9
Staff Development Days	Finding claimed for ineligible staff	10
	District did not comply with waiver	5
	Other findings	9
Other State Programs	Financial report inaccurate/not complete	1
	Other findings	<u>7</u>
Subtotal, number of state findings		<u>1,227</u>

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
FEDERAL		
Child Care and Development Block Grants	Allowable costs/cost principles	1
	Eligibility of participants	1
Special Education	Expenditures overstated	1
	Special tests and provisions	3
	Allowable costs/cost principles	3
	Equipment and real property management	2
	Subrecipient monitoring	1
	Cash management	1
	Lack of documentation/records	7
Head Start	Expenditures overstated	1
	Matching, level of effort	1
	Special tests and provisions	1
	Allowable costs/cost principles	1
	Cash management	1
	Period of availability of federal funds	1
	Lack of documentation/records	1
Migrant Education	Types of services allowed/unallowed	1
	Allowable costs/cost principles	1
Subrecipient Monitoring	Noncompliance with federal requirements	4
Allowable Costs/Cost Principle	Noncompliance with federal requirements	5
Equipment and Real Property Management	Noncompliance with federal requirements	16
Federal Programs	Multifunded position not supported by time distribution records	23
	Noncompliance with requirements for procurement/suspension/debarment	1
School Breakfast Program	Expenditures understated	5
	Expenditures overstated	2
	Activities allowed or unallowed	1
	Eligibility of participants	5
	Reporting requirements	3
	Allowable costs/cost principles	1
	Lack of documentation/records	2
	Other findings	2
Drug Free Schools	Period of availability of federal funds	3
	Allowable costs/cost principles	2
	Equipment and real property management	1
FEMA	Allowable costs/cost principles	1

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
FEDERAL (continued)		
National School Lunch	Eligibility of participants	20
	Lack of documentation/records	6
	Financial report inaccurate	2
	Expenditures overstated	3
	Expenditures understated	12
	Types of services allowed/unallowed	3
	Reported expenditures inaccurate	2
	Reporting requirements	6
	Special tests and provisions	1
	Allowable costs/cost principles	1
	Equipment and real property management	2
	Other findings	5
Vocational Education	Equipment and real property management	1
Title I — Grants to LEAs	Equipment and real property management	6
	Period of availability of federal funds	3
	Expenditures overstated	1
	Financial report inaccurate/not complete	1
	Activities allowed or unallowed	4
	Eligibility of participants	4
	Special tests and provisions	1
	Allowable costs/cost principles	10
	Cash management	1
	Lack of documentation/records	3
	Procurement and suspension and debarment	1
	Other findings	4
Other Federal	Matching, level of effort, earmarking	1
	Reporting requirements	1
	Equipment and real property management	1
	Other findings	<u>1</u>
Subtotal, total number of federal findings		<u>213</u>
Total number of findings		<u>1,440</u>

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